



MINUTES

LOSS TRUST FUND BOARD MEETING 7447 E. Indian School Rd., Suite 210 Finance Conference Room Scottsdale, AZ

**October 14, 2014
8:00 a.m.**

PRESENT: James Tomlinson, Chair
Jim Stabilito, Vice Chair
Pauline Hecker
Matthew Kleifield (telephonic)
Bill Powell (telephonic)

STAFF: Katie Callaway, Risk Management Director
Jeff Nichols, City Treasurer
Lauran Beebe, Benefits Manager
Jack Miller, Senior Budget Analyst

1) CALL TO ORDER

Chair Tomlinson called the meeting of the Loss Trust Fund Board to order at 8:03 a.m.

2) ROLL CALL

A formal roll call confirmed the presence of Board Members as stated above. Board Members Kleifield and Powell attended via telephone.

OLD BUSINESS

- 1) Approval of the May 30, 2014 meeting minutes

Board Member Hecker raised a question about which tax would be used to fund any insurance shortfall due to tort recoveries. City Treasurer Mr. Jeff Nichols said he wanted to check and requested that approval of the minutes be tabled to the next meeting.

Later in the meeting, Mr. Nichols confirmed that Board Member Hecker was correct in that property tax can be used to fund any insurance shortfall due to tort recoveries. The May 30, 2014 meeting minutes should be changed to say "property tax" instead of "sales tax" in the paragraph on page 6 that begins " Mr. Nichols recalled previous discussion about attaining the 85 percent confidence level."

VICE CHAIR STABILITO MOVED TO APPROVE THE MINUTES OF THE MAY 30, 2014 MEETING AS AMENDED. BOARD MEMBER POWELL SECONDED THE MOTION, WHICH CARRIED BY A VOTE OF FOUR (4) TO ZERO (0). BOARD MEMBER HECKER ABSTAINED.

NEW BUSINESS

- 1) Introduction of new Board Member

Board Member Hecker introduced herself. She is currently the Risk Manager for Maricopa County, having served at the Risk Manager for Scottsdale from November 2005 through May 2012.

- 2) Review and Discussion of the annual actuary study as relates to the 2014 adopted budget.

Risk Management Director Ms. Katie Callaway said she had included the 32-page short actuary study in the meeting packet. The pertinent information was rolled into the annual report.

- 3) Review and Discussion of the Annual Actuarial Report for Fiscal Year 2013/2014

Ms. Callaway said she was bringing this to the Board earlier than normal because her intent was to add last year's information and then next February or March present a financial update, at which time Ms. Beebe would provide a comprehensive overview of the new health plan. It might also be possible to give a preliminary insurance update.

She noted that the City was awarded the 2013 Municipal Safety Award for greatest improvement in safety results from the Arizona Governmental Safety Association. This is due to the City's very favorable workers compensation rate of 5.63%, compared to other municipalities at 7.17%.

The department's historic benchmark goal has been that the cost of risk never exceed 2% of the City's operating budget. In fiscal year 2012/2013 they missed that mark,

coming in at 2.5%. Last year however they came in at 1.9% for fiscal year 2013/2014. Part of this is attributed to a reduction in the operating budget. In addition they have had favorable recoveries.

Ms. Callaway noted that the reserves for outstanding losses jumped significantly in FY 2013/2014. One claim concerned an auto accident with an alleged brain injury. There were also some workers compensation injuries that involved deteriorating conditions. Some injuries were reopened. There was a significant reserve increase for two general liability claims that have since settled, one in FY 2013/2014 and one in the current fiscal year.

Ms. Callaway stated that the department hired two new adjusters. As they conducted comprehensive file reviews to familiarize themselves with the department, this led to some substantial reserve increases. This means that they have the best snapshot of the City's projected losses at this time.

Ms. Callaway said the medical review savings is an excellent program that works well for the City's workers compensation claims. She acknowledged that they pay a substantial amount for this service but the savings justify that. In reply to a question by Vice Chair Stabilito, she elaborated on how Corvel, the medical review company, is paid, adding that the contract is going out for bids this year. Further discussion ensued.

Ms. Callaway concluded that the amount of savings is not equal to what the City pays Corvel. She undertook to include the net savings in the next report.

Vice Chair Stabilito asked Benefits Manager Ms. Luran Beebe about the claims processing for other employee health benefits. He suggested there could be an opportunity to combine medical review for both workers compensation and the employee health benefits program. Ms. Beebe said CIGNA processes all claims and that there is very little out of network.

Ms. Callaway said this year the department plans to concentrate on recovering more of the damages that people are doing to City property. They are tracking property and liability recoveries separately and she is confident that this approach will add value back into the trust.

Board Member Hecker inquired what the plan is. Ms. Callaway said they have developed a subrogation portion of RISKMASTER. The property adjuster is working on large subrogations and the risk management claims coordinator is working on the smaller subrogations, such as cars damaging stop signs. She believes that they will be able to recover significant amounts.

Turning to the general liability payment chart, Ms. Callaway said there is a large legal component to their claims. The City Attorney's Office has to defend the City against outrageous demands by preparing for trial, even though cases may settle. The attorneys do a very thorough job and do not charge the trust more than outside attorney rates. She commented that they receive nuisance claims, such as allegations of police misconduct. She feels this question should be investigated, adding that she and the new adjuster are getting to know the City Attorney's Office and how they work and looking at how they prepare to defend cases. She wants to make sure the City is not overspending in this area.

Board Member Hecker inquired whether there is any plan to have police officers wear body cameras. Ms. Callaway said they ran a pilot program in the downtown area and the challenge is the amount of data that is collected and the logistics of storage and retrieval.

Chair Tomlinson asked about the rates charge by the City Attorney's Office. Ms. Callaway said their rates are lower than what outside counsel would charge, at approximately \$145 per hour.

Board Member Hecker asked about the contracted rate charged by outside counsel. Ms. Callaway said an RFQ is about to be issued. The top rate for outside counsel would normally be \$210 per hour. However, some attorneys are highly specialized and their rates might be adjusted.

Looking at the workers compensation payment breakdown, Ms. Callaway discussed the portion for permanent disability/loss of earnings and how it has developed over time. The increase in FY 2013/2014 is due to the new workers compensation adjuster reviewing all the files and cleaning up things that had been missed earlier. She does not consider that this is a trend.

Vice Chair Stabilito inquired about people aging out of the permanent disability. Ms. Callaway and Board Member Hecker said that these are awarded for the lifetime of the individual. Ms. Callaway added that if the amount awarded reaches the stop loss level the stop loss insurer reimburses the City for the payments.

The overall loss performance shows some increase in general liability year over year. However there is no identifiable trend. It appears that workers compensation claims are more frequent. In reality this has to do with some exposure incidents that the actuary wanted to include in the claims that they had not previously included, for example police or Fire personnel being exposed to bloodborne pathogens. Once an incident report is filed, her staff opens a claim in case the exposed employee develops a disease. As yet no claims have emerged.

Property claims have risen steeply, which is why the department will focus on recovery.

Ms. Callaway reviewed items of note regarding individual department losses. In FY 2012/2013 the Charter officers were charged \$400,000 on the failure to regulate claim in the pedicab case.

Human Resources had fewer claims in FY 2013/2014.

Community Services has claims primarily for vandalism and flooding.

The Fire Department is doing well on general and vehicle liability. There is an increasing trend on workers compensation, some of which is due to the aging workforce. They have a dedicated employee working on a wellness program.

The Police Department has expenses for defending against allegations of excessive force, although no settlements. Mandatory training has reduced vehicle liability losses. The Police Department is now using SUVs and the higher profile makes them more visible.

The Public Works Department has had more claims and in this fiscal year a fairly substantial workers compensation claim. As a result the Public Works Director, the Safety Manager and Ms. Callaway have been discussing developing an internal safety specialist for the department.

Board Member Hecker asked whether the general liability claims for FY 2012/2013 was one big claim or several. Ms. Callaway undertook to research that question.

The Water Resources Department has made an effort to bolster their safety programs, reflected in a small decline in the frequency of workers compensation claims.

Ms. Beebe presented the self-insured medical and dental plans. She noted that the City saved approximately \$600,000 in administrative fees by switching from Aetna to CIGNA. For the first time, they have begun precertifying outpatient services. At the end of the year the experience will be analyzed. For this fiscal year the retirees are gone so the ongoing problem with underfunding of this group is also gone. Some of the savings will be used to help offset those claims.

Ms. Beebe noted that they will go out to bid for stop loss this year. Board Member Hecker asked about the stop loss market. Ms. Beebe said last year they received competitive rates and she expects it will be the same this year. She reminded the Board that the City still covers disabled retirees, although this is a group of only 26.

CIGNA has offered a wellness guarantee. To take advantage of it, at least 65% of employees must participate in the health risk assessment next year. CIGNA guarantees that if they do not improve the health of that initial population they will pay the City up to \$1,200 per employee. More employees participated last year, but they did not reach the goal of 65%. CIGNA has extended this guarantee to the current fiscal year. Mr. Nichols recalled they had offered a number of incentives to encourage people to take part and asked if they understand why employees are unwilling to participate. Ms. Beebe said CIGNA offered a number of generous incentives. Despite HIPAA laws, it seems employees are concerned about privacy of information.

Vice Chair Stabilito asked if employees have been offered a discount to their premium contributions as an incentive to do the health risk assessment. Ms. Beebe said last year a discount of \$5 or \$10 per paycheck, but the consensus was that employees preferred a premium holiday at Christmas.

Senior Budget Analyst Mr. Jack Miller said the plan is operating well in that contributions exceed costs. In outlying years there is the potential for some issues, but on the whole the program is well run and the City is in good shape. He agreed with Chair Tomlinson that the City will likely achieve the 85% confidence level at the end of this fiscal year.

Ms. Callaway said that the five-year financial forecast shows them in the 75% to 80% confidence interval. They had a low ending balance for FY 2013/2014. They have increased charges out to departments for property liability and workers compensation rates. She anticipated that claims will be very close to what had been forecast. Some unspent claims money was moved into this fund from last year.

Board Member Hecker asked how Ms. Callaway could expect savings such that workers compensation savings for the current fiscal year could be \$1.7 million. Ms. Callaway

said she set the budget without having the actual numbers. She used the actuary report which had estimated total claims of \$4.253 million for FY 2013/2014. She used that number and estimated \$5.139 million split among the various claims accounts. She pointed out that insurance recoveries were estimated at \$250,000, but last year the City received at least \$350,000. The Risk Management operating budget was based on the prior year, so it appears to be \$100,000 higher than actual. She feels they can overcome slightly higher workers compensation claims.

Mr. Nichols asked whether settling the motor vehicle claim for \$425,000 would affect general liability budget. Ms. Callaway said it will. Ms. Callaway explained that because the claim was supposed to be settled in this fiscal year the reserve had to be increased by almost \$1 million. In the event the settlement was very favorable.

Board Member Hecker asked Mr. Nichols how departments had absorbed a rate increase of almost 40%. Mr. Nichols said that when the rates are increased, the departmental budgets are also adjusted accordingly.

Mr. Nichols talked about the minutes of the May 30, 2014 meeting. He said that Board Member Hecker was, in fact, correct. Property tax would be used to fund insurance shortfall due to tort recoveries. On the last page of the annual actuarial report under Revenue and Other Sources he advised that City Council had reluctantly approved the \$2 million on property tax. He plans to ask for this again as long as State law allows for this.

Ms. Callaway said excess insurance premiums were budgeted at \$1.943 million, yet this year they paid \$2.364 million. Mr. Nichols recalled that there had been discussion about holding the self-insurance reserve at \$2 million. The choice to maintain the self-insurance reserve resulted in paying more than had been budgeted for premiums.

Ms. Callaway said there are some unknowns in the report, which is why she wants to have an update meeting in February or March.

Mr. Nichols said the department now has a good team and processes are being put in place so he is hopeful that there will be a positive impact on the fund as a whole. He asked Chair Tomlinson whether he wanted to approve the minutes of the May 30th meeting that they had considered tabling.

OPEN CALL TO THE PUBLIC

No members of the public wished to address the Board.

Noting that this is Board Member Powell's last meeting, Ms. Callaway thanked him for his years of service.

Ms. Callaway asked the Board Members to reach out to any other professionals who live in Scottsdale who might be prepared to serve on the Board. She confirmed that the Board can operate with four members pending the appointment of a new member.

ADJOURNMENT

With no further business to discuss, being duly moved and seconded, the meeting adjourned at 9:04 a.m.

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